# SUBCOMMITTEE NO. 4

Agenda

Senator Mark DeSaulnier, Chair Senator Tom Harman Senator Gloria Negrete McLeod



Agenda Part "C"

Wednesday, May 19, 2010 1:30 p.m. Room 112

Consultant: Bryan Ehlers

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# 8880 Financial Information System for California

The Financial Information System for California (FI\$Cal), is an Enterprise Resource Planning (ERP) information technology (IT) project intended to create and implement a new statewide financial system which will encompass the areas of budgeting, accounting, procurement, cash management, financial management, financial reporting, cost accounting, asset accounting, project accounting, and grant accounting. The development of FI\$Cal resides with four "Partner Agencies," the Department of Finance, the State Treasurer's Office, the State Controller's Office, and the Department of General Services.

As an ERP system, FI\$Cal will be a set of software applications that will integrate and streamline the aforementioned business processes across state government, and, in so doing, replace aging legacy systems, inefficient "shadow" systems, and duplicate processes throughout the state's departments and agencies. The FI\$Cal system will be implemented in several phases, or "waves," over the next decade.

**Governor's Budget.** The Governor proposes \$38.4 million for continuing the FI\$Cal project, including \$30.7 million GF (\$14.8 million of which is to be carried over from a previous \$38 million GF loan the Legislature authorized in 2008-09), and \$7.7 million from special funds.

**Background and Recap of the March 11 Hearing on FI\$Cal.** The Subcommittee heard the Governor's Budget proposal for FI\$Cal on March 11, at which time a couple of key project changes were noted:

- The project has adopted a two-step procurement strategy (or "Bake-Off") which includes the following:
  - Fit-Gap Analysis. The project chooses three vendors to participate in a "Fit-Gap" analysis—a review of potential gaps between the vendor's software and the state's business requirements.
  - 2) Design, Development, and Implementation Award. Each of the three vendors participating in the Fit-Gap analysis can develop and submit a detailed FI\$Cal implementation plan, with one receiving the contract award as the System Integrator (SI).
- The project has adopted a new implementation strategy involving a more limited (or phased) roll-out than previously envisioned. Instead of implementing all functionalities (e.g., accounting, budgeting, procurement, financial management, etc.) at once, the new approach would focus initially (in Wave 1) on implementing a reduced set of processes (to be determined during the fit-gap analysis) in a handful of departments before

moving on to introduce accounting in other departments or adding functionalities to Wave 1 departments.

As discussed at the March 11 hearing, LAO and staff believe the above project alterations generally serve to reduce cost and risk, and enhance the project's chances for success.

Ultimately, the Subcommittee held the item open to await further project updates. As enumerated below, the Governor has since proposed, via an April Finance Letter, funding adjustments due to an accelerated project schedule, as well as various statutory changes, via proposed trailer bill language (TBL) in the May Revise.

**New FI\$Cal Proposals for the Subcommittee's Consideration.** The Governor's two spring proposals are discussed below, and a consolidated staff recommendation (addressing both proposals) follows.

1. Finance Letter: Project Schedule and Funding Adjustments. The Governor proposes an increase of \$4.2 million (FI\$Cal Internal Services Fund) in order to accelerate Stage One of the procurement process by two months (from nine months to seven months) and pay vendors (\$1.4 million apiece) for Fit-Gap analysis deliverables in the 2010-11 Fiscal Year (rather than in 2011-12). Under the new proposed timeline (contained in Appendix A), the project would award the final SI contract in September 2011.

Additionally, the Governor proposes a technical change, including amendments to Control Section 8.88 to reflect the elimination of several proposed assessments from non-governmental cost funds (which were ultimately deemed inappropriate because the affected entities will not use the full functionality of FI\$Cal).

**Staff Comments:** For reasons previously outlined in the March 11 agenda, staff generally supports continued funding (of \$42 million in FY 2010-11) for FI\$Cal at this time, and notes no significant concerns with the proposed plan to accelerate the Fit-Gap process and the associated expenditures.

However, while the Subcommittee is not yet confronted with a \$1 billion-plus decision to fund the implementation of FI\$Cal, this year's budget approval would carry the project through the Fit-Gap analysis and bring it to within several months of awarding a final SI contract. Therefore, the Subcommittee should carefully consider what it would be purchasing for \$42 million.

As the LAO points out, this \$42 million investment would produce, via the Fit-Gap analysis, several tangible documents (one from each vendor) with greater value than an RFP alone, and would provide the Legislature with more accurate

information about what the project would actually cost at the end of the process. That information, along with considerations of the economic climate at the time, could guide the Legislature in deciding whether it was feasible to continue with the project. Even so, in order to provide the state with more tangible products and give the Legislature additional options to consider, including the option to develop a less costly version of FI\$Cal, the **LAO recommends** that the Legislature direct the project managers to require vendors to develop a scaled-back plan with less functionality in addition to the current plan to develop a fully functioning system. (Since the RFP has already been released, this option would require an addendum to the RFP.)

### **Questions:**

- Does the project have any concerns with the LAO recommendation to develop a scaled-back plan in addition to the full-functionality plan?
- Given that the budget could be delayed, how soon could FI\$Cal have the RFP amended if it becomes clear through the Subcommittee process that the Legislature wishes vendors to provide a scaled-back option?
- **2. TBL:** Repeal, Re-enact, and Amend FI\$Cal Statutes. The Governor proposes, via TBL, to: (1) re-enact FI\$Cal authorization and financing provisions as separate legislation to address the single-subject-rule issue raised by the Attorney General's office and preserve the potential for bond financing in the future; (2) amend the FI\$Cal statute provisions (e.g., project objectives) to make them consistent with the latest Special Project Report (SPR 3); (3) delete the "hard pause" (associated with the previous SPR 2 approach) for legislative review of the project; and (4) clarify that some departments with existing ERPs will need to interface with the system.

**Staff Comments.** Regarding the general repeal, reenactment, and amendment of the FI\$Cal statute to conform to SPR 3, staff notes no concerns in concept. However, the proposed changes are myriad, and require additional review by staff and the LAO. Therefore, should the Subcommittee elect to adopt such provisions, staff would recommend doing so only in concept, in the form of placeholder TBL, so that staff and the LAO may have more time to work with the Administration on any needed revisions.

Additionally, regarding the need to clarify that some departments with existing ERPs will need to interface with FI\$Cal, staff notes no particular concerns.

However, staff notes significant concerns with the Governor's proposal to eliminate the existing "hard pause" in FI\$Cal implementation and to provide no enhanced legislative review of the fully-envisioned project in its stead.

The "hard pause" was adopted in TBL in 2008 when full FI\$Cal functionality was planned to be rolled out all at once across each successive wave of departments. The pause was to occur after completion of Wave 1 deployment (consisting of a handful of departments), but before the vast majority of project costs were incurred, so that the Legislature (and the project) could evaluate the project todate and assess its chances for success before committing to fund the remainder of the project—approximately \$1 billion.

While staff acknowledges that the "hard pause" contained in existing statute is not well-suited to the revised project implementation plan, deletion of this critical opportunity for review would greatly reduce legislative oversight of the project. All that would remain would be a provision adopted last year in TBL that would require 30-day notification to the Legislature before award of the SI contract. Given the years of review and planning, and the approximately \$1.5 billion that will be at stake, if no future pause for legislative review is in place, 30 days hardly seems adequate time for the Legislature to conduct its due diligence of such a massive undertaking.

Therefore, staff strongly recommends the Subcommittee consider enhancing the period of legislative review from 30 days to at least 60 days (and preferably 90 days). As the LAO notes, this review period would provide the Legislature with at least three options: (1) concurring with the proposed contract, (2) not concurring, or (3) deferring consideration of FI\$Cal project continuance to the regular budget process. Expanding the review period would give the Legislature sufficient time to schedule hearings, if necessary, to consider the merits of the bake-off proposals. Additionally, if there were major concerns, the Legislature would have the option to defer approval of the proposed plans for system development to the regular budget review process.

### Questions:

- From the project's perspective, what are the pros and cons of providing additional time for legislative review before contract award?
- How much difference is there between 30, 60, or 90 days?

**Staff Issue:** Paying for FI\$Cal. As noted in the March 11 agenda, the initial FI\$Cal funding plan relied heavily on bond financing for the early years of development. Now, due to potential difficulties in issuing bonds, the Administration proposes to use vendor financing in lieu of bond proceeds, and to tap into special funds earlier than anticipated. As the LAO notes, should the project not be completed or delayed indefinitely, the GF could be obligated to repay these special fund costs.

The project is not requesting financing at this time (nor would it be necessary until the time of the SI contract award), the Subcommittee should obtain an

update on current financing plans, including how the requested repeal and reenactment of FI\$Cal statutory authority could affect future financing options.

#### Questions:

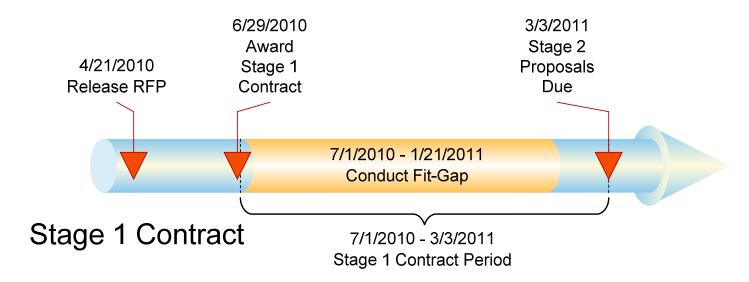
- What, if any, changes in the project's potential/preferred funding options have occurred since this issue was heard back in March?
- Does it appear bond financing may eventually prove viable? Why or why not?

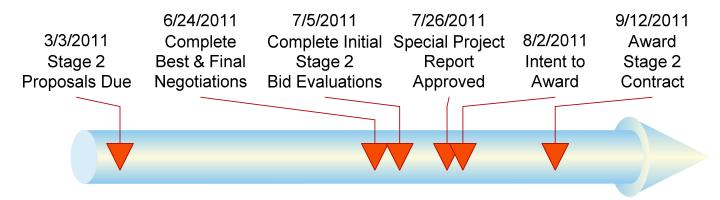
**Final Staff Thoughts: Unanimity Essential.** Staff recommends the Subcommittee only approve ongoing resources for FI\$Cal if there is unanimous support. Not only the potential price tag, but the far-reaching implications of the project for state government, militates toward a consensus approach that ensures broad support and buy-in.

**Staff Recommendation:** If there is unanimous Subcommittee support, then APPROVE the Governor's Budget, April Finance Letter, and May Revise TBL with the following changes: (1) adopt, in concept, an enhanced period of legislative review of 90 days (with an option to waive the final 30 days) before executing a contract with the vendor; and (2) adopt all TBL as placeholder to allow staff to work with the LAO and the Administration to iron out final details. Additionally, in light of the uncertainty surrounding the availability of future funding, ADOPT the LAO recommendation to direct the project to require vendors to develop a scaled-back plan with less functionality in addition to the current plan to develop a fully functioning system.

#### VOTE:

## Appendix A – FI\$Cal Updated Procurement Timeline





Stage 2 Contract